

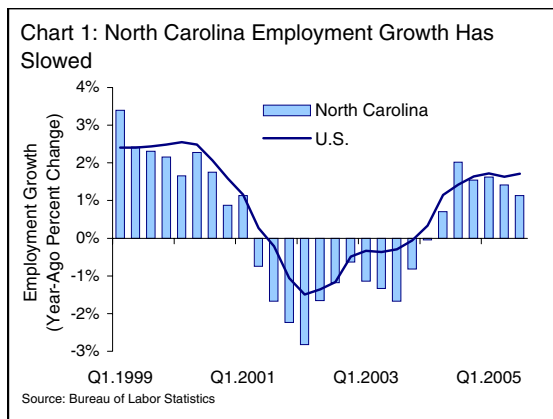
# FDIC State Profile

Winter 2005

## North Carolina

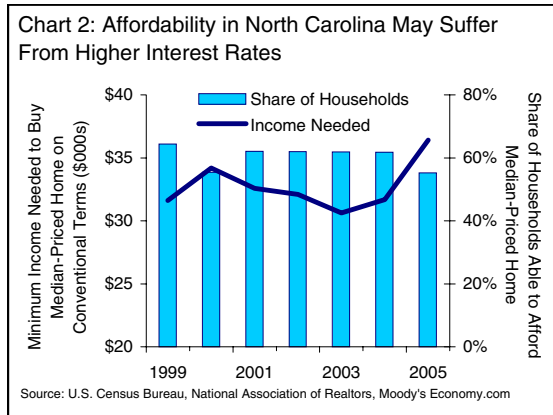
North Carolina's economic recovery is slowing.

- Employment growth in North Carolina moderated through third quarter 2005, in part, as manufacturing remained a drag on the economy. In third quarter 2005, statewide employment was up 1.1 percent from a year earlier, well below the national average of 1.7 percent (see Chart 1). Global competition continues to depress North Carolina's manufacturing sector which is dominated by textile and apparel employment. Job growth varied significantly across North Carolina as the state's larger metropolitan areas, **Charlotte, Raleigh, Winston-Salem, and Wilmington**, all continued to see robust year-over-year gains. Growth in other areas was less upbeat, as employment in both **Burlington** and **Rocky Mount** declined.



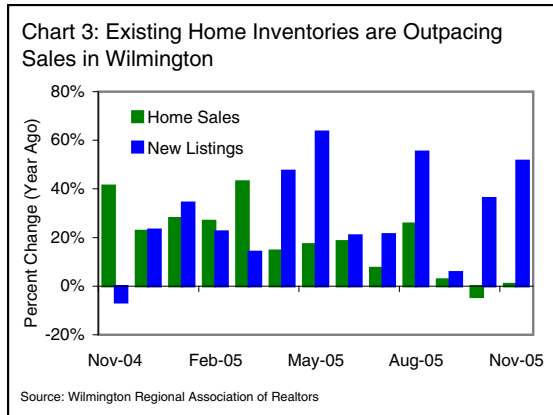
Home price appreciation has reduced affordability.

- According to the Office of Federal Housing Enterprise Oversight, home prices in North Carolina appreciated 6.9 percent for the 12 months ending September 30, 2005. Steady appreciation during the past five years has pushed home prices to a record level of 3.7 times household income. Moreover, affordability has been reduced as 55 percent of households in North Carolina have annual incomes of at least \$36,405, which is needed to purchase the median-priced home of \$155,964 using conventional financing (see Chart 2). In contrast, 62 percent of households had sufficient income to purchase the median-priced home at year-end 2004. Rising mortgage interest rates could further reduce affordability.



Housing markets may be in a state of transition.

- A number of factors such as reduced affordability, higher mortgage interest rates, and lower homebuyer optimism are starting to weigh on the housing market. Recent trends suggest that an inflection point may have been reached in some local housing markets as they have transitioned from a sellers' to a buyers' market. For example, in the Wilmington housing market, monthly sales of existing homes have recently approximated year-ago levels (see Chart 3). At the same time, monthly inventories of unsold homes compared with a year-earlier have increased at a



double-digit growth rate for much of 2005. While inventory levels and days on market are still below late-1990s' levels, the dramatic rise in inventory may portend future price softening and longer marketing periods.

### Rising energy costs may hamper the state's economic growth.

- Energy costs have increased substantially in recent years. Nationwide, over 9 percent of wages and salaries are spent on energy—the highest since the late 1980s. In North Carolina, per capita residential expenditures are estimated at \$1,641 and industry experts expect the burden of higher energy prices to rise even further in 2006 (see Chart 4). Rising energy costs also could have a significant impact on key North Carolina industries. The state ranks fourth nationwide in chemicals manufacturing, one of the most energy-intensive industries. For every \$10 increase in the price of a barrel of oil, variable costs to the industry nationwide rise by \$2.6 billion. Similarly, a \$1.00 price rise per million British Thermal Unit in natural gas results in a \$3.7 billion increase.

### Financial pressures may weigh on consumers.

- The combination of rising energy costs, interest rates, insurance premiums, taxes, and debt servicing requirements may add stress to consumers' finances. Prior to the implementation of the new bankruptcy law in mid-October 2005, North Carolina experienced an increase in personal bankruptcy filings, which will likely be followed by a decline later in the year. However, the accumulating pressures building on consumers may contribute to a rise in filings in 2006.

### Branch office openings have increased.

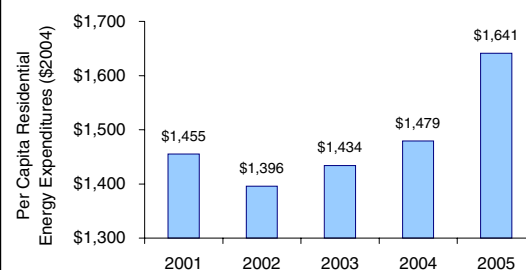
- Annual Summary of Deposit data collected by the FDIC as of June 30, 2005, shows that North Carolina added 34 banking offices from a year ago. In contrast, the state added 48 offices in 2004. North Carolina ranked 38<sup>th</sup> nationally for office growth with a rate of 1.4 percent during 2005. Office openings were concentrated in urban areas such as Charlotte (11), Wilmington (5), and Asheville (4). Far more branches were opened in urban areas resulting in greater branch density per population than most rural counties (see Map 1).

### Banking conditions in the state of North Carolina remain sound.

- Overall, North Carolina community banks continued their solid performance.<sup>1</sup> After slowing in 2003, net income growth has risen steadily over the past two years

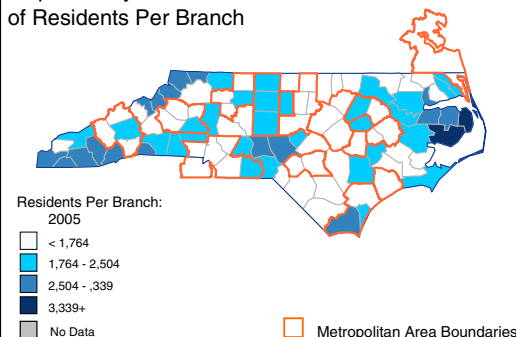
with total net revenue jumping 30.5 percent by September 30, 2005 to attain a record level of \$130 million. Net interest margins rose 24 basis points to 4.14 percent as of September 30, 2005, while return on assets gained 11 basis points to 0.98 percent (see Chart 5). Robust loan growth contributed to the increase in net interest income.

**Chart 4: North Carolina Residents Are Paying Significantly Higher Energy Bills Because of the Run-up in Energy Prices**



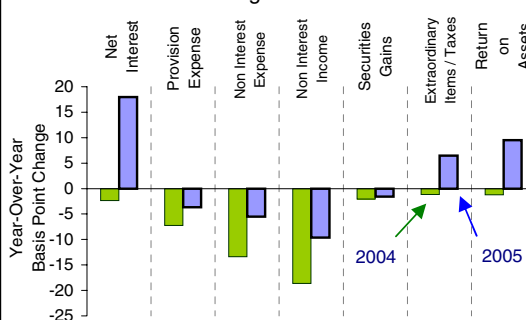
Sources: Energy Information Administration, Moody's Economy.Com, FDIC

**Map 1: Many Urban Counties Have a Low Number of Residents Per Branch**



Source: FDIC, Bureau of the Census, Moody's Economy.com

**Chart 5: North Carolina Community Bank Return on Assets Benefited from Higher Net Interest Income**



Source: FDIC, third quarter data.

<sup>1</sup>Commercial banks with assets less than \$1 billion (excludes specialty and de novo banks).

## North Carolina at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>Q3-04</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	1.4%	2.0%	1.1%	-1.2%
Manufacturing (15%)	-1.4%	-0.4%	-1.3%	-3.3%	-6.9%
Other (non-manufacturing) Goods-Producing (6%)	3.0%	3.4%	3.9%	2.2%	-3.5%
Private Service-Producing (62%)	1.9%	1.8%	2.4%	2.0%	0.2%
Government (17%)	0.0%	1.1%	2.9%	1.5%	0.0%
Unemployment Rate (% of labor force)	5.6	5.2	5.4	5.5	6.5
<b>Other Indicators</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>Q3-04</b>
Personal Income	N/A	7.4%	6.9%	6.7%	2.6%
Single-Family Home Permits	16.3%	9.9%	10.2%	14.5%	-0.8%
Multifamily Building Permits	-33.0%	-0.4%	51.9%	32.5%	-22.1%
Existing Home Sales	11.7%	8.9%	24.6%	23.2%	10.0%
Home Price Index	6.9%	6.3%	4.8%	4.4%	3.3%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	5.27	4.52	4.27	4.27	4.92

**BANKING TRENDS**

<b>General Information</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>Q3-04</b>
Institutions (#)	108	108	108	108	104
Total Assets (in millions)	1,685,443	1,654,698	1,261,333	1,302,253	1,101,834
New Institutions (# < 3 years)	11	11	9	10	7
Subchapter S Institutions	1	2	2	2	2
<b>Asset Quality</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>Q3-04</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.10	1.07	1.24	1.23	1.58
ALLL/Total Loans (median %)	1.26	1.25	1.26	1.27	1.28
ALLL/Noncurrent Loans (median multiple)	2.39	2.33	1.97	2.11	1.92
Net Loan Losses / Total Loans (median %)	0.05	0.04	0.07	0.11	0.10
<b>Capital / Earnings</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>Q3-04</b>
Tier 1 Leverage (median %)	9.70	9.66	9.85	10.27	9.46
Return on Assets (median %)	0.91	0.88	0.82	0.71	0.76
Pretax Return on Assets (median %)	1.35	1.26	1.18	1.05	1.10
Net Interest Margin (median %)	3.90	3.85	3.76	3.67	3.65
Yield on Earning Assets (median %)	6.43	6.15	5.46	5.41	5.66
Cost of Funding Earning Assets (median %)	2.42	2.15	1.72	1.72	1.96
Provisions to Avg. Assets (median %)	0.18	0.20	0.20	0.19	0.20
Noninterest Income to Avg. Assets (median %)	0.71	0.67	0.72	0.69	0.88
Overhead to Avg. Assets (median %)	2.82	2.82	2.74	2.84	2.96
<b>Liquidity / Sensitivity</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>Q3-04</b>
Loans to Assets (median %)	75.3	74.9	74.2	75.9	73.0
Noncore Funding to Assets (median %)	28.3	27.5	26.0	26.1	24.0
Long-term Assets to Assets (median %, call filers)	11.4	11.8	12.3	12.4	13.7
Brokered Deposits (number of institutions)	58	57	51	52	39
Brokered Deposits to Assets (median % for those above)	6.1	5.4	4.7	5.6	3.9
<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>Q3-04</b>
Commercial and Industrial	90.9	88.8	87.0	84.7	97.8
Commercial Real Estate	325.3	329.7	309.8	315.5	304.4
Construction & Development	107.0	108.7	93.5	97.5	79.1
Multifamily Residential Real Estate	8.9	10.9	9.8	10.1	10.3
Nonresidential Real Estate	174.7	171.4	167.5	152.8	167.2
Residential Real Estate	244.7	252.5	262.1	256.6	273.0
Consumer	19.9	19.7	23.4	21.6	32.4
Agriculture	2.0	2.1	2.2	2.2	3.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Charlotte-Gastonia-Concord, NC-SC	43	90,216	< \$250 million	59 (54.6%)
Virginia Beach-Norfolk-Newport News, VA-NC	31	16,042	\$250 million to \$1 billion	36 (33.3%)
Winston-Salem, NC	19	14,002	\$1 billion to \$10 billion	8 (7.4%)
Raleigh-Cary, NC	24	13,216	> \$10 billion	5 (4.6%)
Greensboro-High Point, NC	29	9,397		